

These improvements comprehend digital technology, single party service, and basic SS7 capabilities. We wish to emphasize again that these funds do not encompass experimental technologies or exotic services, nor can they be credibly argued as preemptive of competition. The problem in these areas is not one of multiple suppliers, but rather, in many instances, the absence of any supplier.

The Accounting and Audits Division has requested additional specific information concerning these upgrades, which we are happy to supply here.

(a) Switch Replacement: PTI plans to replace Forty-Two (42) switches (including a large number of remotes) as part of the reconfiguration and upgrading of our rural network. The reconfiguration will economize on the need for switching equipment, in turn offering the prospect of lower maintenance and operating costs in the future. Existing electro-mechanical equipment will be replaced with fully digital equipment, in keeping with PTI's service philosophy in the rest of its serving areas.

(b) Loop Replacement: PTI estimates that approximately 4,000 loops will be substantially or completely replaced. Moreover, every line in these properties will be tested and cleared of any and all trouble, in order to ensure maintenance of minimum acceptable service levels. There are approximately 49,000 such lines in the acquired properties. If repair or replacement of any of these lines is indicated, it will be done.

PTI has presented in its waiver application the full estimated impact of this acquisition on the USF. In the actual event, this impact will likely occur in the future over a period of time. This funding is based upon a program reviewed by and subject to the continuing oversight of the Colorado Public Utilities Commission. Recognizing the Commission's concern for the size of the USF requirements involved here in a time when Commission policy is under active review and consideration, PTI would be willing to report semi-annually to the Commission's staff on the progress of its upgrade program, thereby to permit monitoring of the utilization of these funds. We believe this course would reassure the Commission as to the application of USF proceeds during this interim period. Necessarily, grant of PTI's waiver application would be subject to the Commission's future determinations concerning universal service, and we so acknowledge here.

(2) Revenue Contributions. You asked in our discussion for a breakdown of the sources of revenue requirement satisfaction regarding these Colorado properties. The table below responds to this request:

<u>Jurisdiction</u>	<u>Allocation</u>
Interstate - Basic Allocation Factor	25.00%
High Cost Fund	48.00%
Intrastate Access	6.00%
Local Rates	21.00%

As Attachment B further amplifies, PTI anticipates that revenues from its Colorado operations will be derived from network access, local services, USF funding, and various other sources. Attachment B further suggests two important points.

First, USF funding, though important to PTI's future operations, is neither the primary nor majority source of revenue. As we discussed, PTI's business plans are based primarily on the growth we have been able to achieve in rural operations. That growth occurs from both increases in the number of access lines (currently, we are able to grow rural lines at a rate more than twice that of the national average) and increases in the utilization by our rural customers of the services available over those lines (including particularly the services of IXCs and others, separate from PTI). Accordingly, USF funding is not a primary motivator, from a business plan perspective.

Second, and however, USF funding is an important consideration from a displacement perspective. USF funds for Colorado will roughly equal the source of funding we derive directly from our customers through local rates. If USF funds were not available at the projected levels, and if instead PTI were to lay that revenue requirement burden directly upon its subscribers, local rates would have to increase dramatically, by more than 119%. Such an increase could well cause material repression in use of the network and could discourage continued connection to the network. These consequences are not only contrary to the purposes and goals of universal service, but result in a less desirable business scenario for PTI.

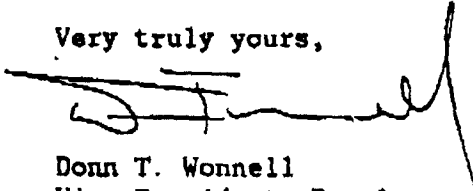
(3) Long-Term USF Requirements. As a final matter, we have discussed PTI's views concerning the cyclical nature of USF needs. As in the case of Colorado, the need for USF funds is greatest at the outset of any capital improvement program, in concert with the substantial initial investment which such programs entail. The needs in Colorado being particularly acute, the initial demands on the USF are large. Over time, however, our historical experience has been that the necessity for USF funds declines, both relatively -- because of the growth we generate in rural use -- and absolutely, because our facilities are both used and useful for substantial periods of time. As discussed above, the Fund is an important component in the decision to make capital investments in rural areas with thin, undeveloped markets. But our need for USF funds does not grow with respect to operating parameters; rather, it declines, as Attachment C suggests. In the case of our Wisconsin properties, for example, current and projected demand for USF funding is slight and will probably disappear in the intermediate term.

PTI understands very well the concerns you have expressed regarding the policy implications of our pending application. We hope the Commission now has a better grasp of the needs to be addressed with these funds and the manner in which PTI utilizes and applies such funds. We are both agreed that the rural consumers of Colorado should not be penalized further while these policy matters are being worked towards a resolution. I am hopeful that these additional facts, and our Company's willingness to be monitored in the interim period, will permit the Bureau to approve the pending waiver on a basis that will make clear no policy precedent is being established. When and as the

current NOI results in appropriate, revised universal service requirements and standards, PTI will adjust accordingly its operations, including those in Colorado.

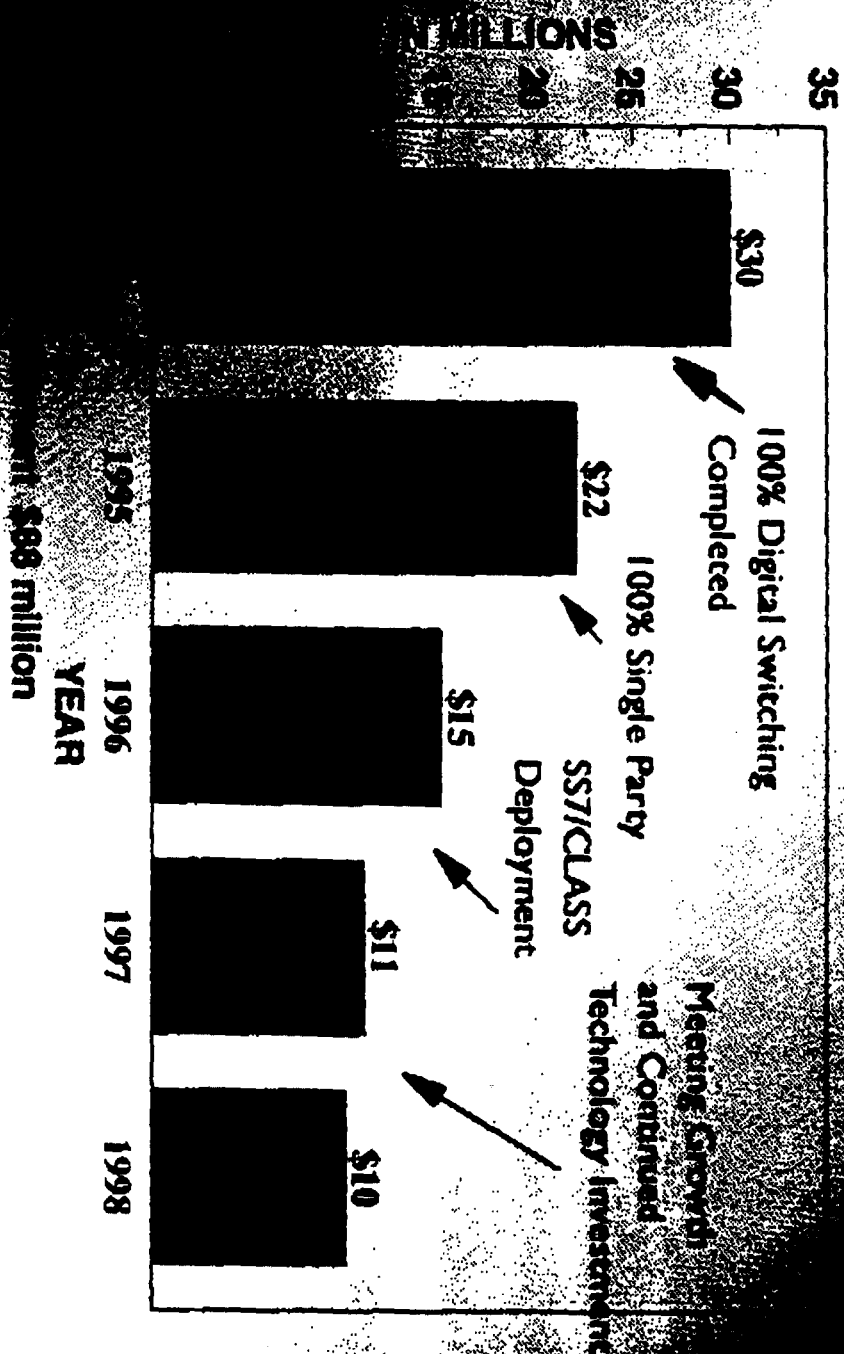
Please extend our appreciation to your staff and to the other Commission representatives for their generous grant of time and attention this week. We hope the discussions and this information will facilitate the timely review and approval of the application, to the end that we can timely implement further needed service improvements. If there is any other information we can supply, please call upon us directly.

Very truly yours,



Donn T. Wonnell  
Vice President, Regulatory Affairs

# Capital Spending Forecast Total Colorado



ATTACHMENT A

F-1

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August 10, 1995

BY HAND DELIVERY

Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

Attention: Charles Needy  
Accounting and Audits Division

Re: Joint Petition of Telephone Utilities of Eastern Oregon, Inc. and U S  
West Communications, Inc. for Waiver of the Definition of Study Area  
Contained in Part 36, Appendix-Glossary, and Section 61.41(c) of the  
Commission's Rules, FCC File No. AAD 94-69

Dear Mr. Needy:

Pursuant to your telephone request, enclosed is additional data in support of  
the above-captioned joint petition.

If you have any further questions, please contact me.

Very truly yours,



Teresa D. Baer

cc: Jeffrey S. Bork

08/08/95

**Pacific Telecom, Inc. -- OREGON STUDY AREA  
ACQUISITION OF US WEST EXCHANGES**

**INVESTMENT ADDITIONS BY YEAR:**  
(Assuming FCC Study Area Waiver approval in August, 1995)

1995	2,749,000
1996	5,903,000
1997	6,427,000
1998	4,180,000
1999	2,980,000
2000	2,989,000